

Arts, Beats and Eats Contract Considerations

June 23, 2016 Revised

The Honorable Mayor Ellison and
Members of the City Commission:

Our contract with Arts, Beats and Eats Inc. expires following the 2017 festival. I have had several meetings with Mr. Witz regarding extending the agreement. There is one major stumbling block that I cannot resolve without city commission direction.

Mr. Witz is looking for us to guarantee the national stage will stay at its current location for the 2016, 2017 and 2018 festivals and is requesting additional financial support if it has to be moved for the 2019 and later festivals.

The report you are currently reading is on the agenda for the June 27 meeting immediately following a presentation by Burton-Katzman LLC on developing that parking lot. The developer will tell you they expect to start construction prior to Labor Day 2017 but I suspect they are being extremely optimistic. The development process is usually a long, slow affair with many delays. However, it is remotely possible the parking lot will not be available in 2017 and it is very possible it will not be available in 2018 unless the city commission is willing to require the developer wait until after the 2018 festival to break ground.

Our current agreement with Arts, Beats and Eats does not guarantee this particular location will be available to the festival at all. Mr. Witz is very much aware of Burton-Katzman's interest in developing the site and he is worried that would leave the festival without a suitable location for the national stage. That is why he is asking us to address this issue now.

We have been exploring alternatives for the national stage. Mr. Witz has suggested two smaller stages with lower profile acts for 2019. This would lead to additional production and talent costs, and could result in fewer attendees and reduced revenue. In that circumstance, he's asking the city to support the additional expenses by paying the festival an additional \$50,000 per year to help cover the added costs.

Another alternative is to move the main stage to different location, outside of the current festival footprint. This would involve redrawing the festival footprint which has multiple implications. We do not have many suitable locations in downtown Royal Oak. The best alternatives are the Royal Oak Ford storage lot at Lincoln and Troy, the farmer's market lot and the city hall/library parking lot. Each of these has a number of problems associated with it.

None are within the current festival footprint so all would require moving the footprint to keep the premier music venue physically connected to the rest of the festival. All are currently used by the city for festival parking and using any of them for the main stage would result in less parking availability and less parking revenue. We don't own the Royal Oak Ford storage lot. We have a lease with Royal Oak Ford to use the lot for festival parking but we would have to negotiate a new agreement if we wanted to use it as a music venue. The city hall and/or library lots have islands and trees. The islands would be a tripping hazard and the trees would block visibility.

The farmer's market lot is more suitable but it is the greatest distance from the current footprint and it is closer to residential areas.

Finally, we have the Royal Oak City Center project (ROCC). If that proceeds, the city hall and library parking lots will both be construction sites in 2017 and 2018 and should house completed structures by Labor Day 2019. The farmer's market east lot will also be a construction site for the proposed police building at the same time. The west lot should be available.

Once completed, the proposed ROCC project supplies a great location for the main stage. We could set the stage up in Troy Street or on the new section of the farmer's market lot where the 225 Troy Street office building formerly stood, facing west. The new central park would hold the audience. However, I would not expect that to be available until 2019 at best.

So, we know there is no problem with the national stage location for the 2016 festival. We think there is probably not a problem for the 2017 festival but I expect the developer may disagree. We may have a nice new location available by 2019. This leaves us with a problem for 2018 and possibly for 2019.

I would not hesitate to recommend any development agreement with Burton-Katzman, or other developer for that site, not allow ground breaking before the conclusion of the 2017 festival. I seriously doubt they could be ready that soon anyway and if it does cause a delay, it would be a short one. Mr. Witz is requesting we push any development on this site off until after the 2018 festival. He is willing to guarantee the festival remain in Royal Oak even if he is without a viable national stage in 2019. He feels reducing the prominence of the national acts two years in a row would be disastrous for the festival. His proposal would allow Burton-Katzman to break ground immediately after the 2018 festival, which is two years and two months from now. If past developments are any indication, it may take that long before they are ready anyway.

We think the festival is very important to Royal Oak but we cannot quantify its importance in any manner in which we truly have faith. Oakland County Economic Development uses a formula which says the festival brings in over \$35 million of economic impact to the region based on a reported attendance using a state tourism modifier. They do not provide a number for additional business in the city. The city has typically received about \$50,000 per year from parking above expenditures for the festival but that is not guaranteed. Indeed, it is easily possible to lose money on the festival but that only happened in 2011, the loss was less than \$8,000, and it was actually the downtown development authority (DDA), not the city budget that suffered. Any excess revenue goes to the park improvement fund and this paid for the new play structure at Star-Jaycee Park. The Arts, Beats and Eats foundation has made a total of more than \$1.6 million in charitable contributions during the six years the festival has been in Royal Oak. More than \$650,000 of that went to Royal Oak based charities and community organizations, making the festival one of the top corporate citizens in the city. The festival also generates an enormous amount of favorable publicity for the city which keeps Royal Oak in people's minds as a destination long after Labor Day. How much is that worth to our business community? According to Mr. Witz, his media service analysis shows the editorial value at several million dollars and festival promotional advertising has value of more than \$1.5 million.

The proposed \$42 million development may generate as much as \$400,000-\$500,000 in captured tax revenue for the DDA. However, the city will not receive any new tax revenue itself. It will also house new retail, office and residential units that will draw additional business to our downtown. It is clear the festival has a far greater impact on Royal Oak than the development will over the four days of the festival. However, the development will be here 365 days per year.

There are several other issues we still need to negotiate before we can bring a contract to the city commission for approval but many of those are dependent on what we are willing to guarantee in regards to the use of the 6th and Main Street parking lot. I need city commission direction on this subject to proceed. Is the city commission willing to guarantee the 6th and Main Parking Lot will be available for 2018?

After this letter was initially posted to the web site, Mr. Witz suggested a compromise that I can support. He suggests that the Burton-Katzman development agreement state that if construction has not commenced by May 1, 2018 the site must be held open for the 2018 festival. I don't think that puts an undue burden on the developer and it is fair to the festival. The worst possible outcome would be to force the festival to move the stage and have no construction occur by festival time. That would be sort of like getting caught in a major traffic backup caused by construction barrels when there is no construction activity.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "Donald E. Johnson". The signature is fluid and cursive, with the first name "Donald" being the most prominent.

Donald E. Johnson
City Manager